

# **HEAL THE BAY**

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2023

**HEAL THE BAY**  
FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2023

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THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK

**AUDIT  
AND  
ASSURANCE**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Heal the Bay

### **Opinion**

We have audited the financial statements of Heal the Bay, which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heal the Bay as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial statements section of our report. We are required to be independent of Heal the Bay and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heal the Bay's ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors  
Heal the Bay

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Heal the Bay's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heal the Bay's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited Heal the Bay's September 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 14, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the financial statements from which it has been derived.

*Green Hasson & Janks LLP*

May 21, 2024  
Los Angeles, California

# HEAL THE BAY

## STATEMENT OF FINANCIAL POSITION

September 30, 2023

With Summarized Totals at September 30, 2022

<b>ASSETS</b>	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 3,910,399	\$ 3,741,432
Contract Receivables	183,147	109,478
Contributions and Pledges Receivable	309,532	88,920
Employee Retention Credit Receivable	-	797,606
Prepaid Expenses and Deposits	171,745	141,181
Construction under Contract with the City of Los Angeles (Note 3)	466,956	399,631
Property and Equipment (Net)	276,819	271,139
Right-of-Use Asset	979,928	-
<b>TOTAL ASSETS</b>	<b><u>\$ 6,298,526</u></b>	<b><u>\$ 5,549,387</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities	\$ 403,004	\$ 350,177
Due to City of Los Angeles (Note 3)	466,956	399,631
Lease Liability	1,050,255	-
<b>TOTAL LIABILITIES</b>	<b>1,920,215</b>	<b>749,808</b>
<b>NET ASSETS:</b>		
Without Donor Restrictions	3,266,553	4,049,429
With Donor Restrictions	1,111,758	750,150
<b>TOTAL NET ASSETS</b>	<b><u>4,378,311</u></b>	<b><u>4,799,579</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,298,526</u></b>	<b><u>\$ 5,549,387</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements

# HEAL THE BAY

## STATEMENT OF ACTIVITIES Year Ended September 30, 2023

With Summarized Totals for the Year Ended September 30, 2022

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>REVENUE AND SUPPORT:</b>				
Direct Public Support	\$ 1,296,988	\$ 7,330	\$ 1,304,318	\$ 1,447,615
Corporate and Foundation Grants	657,842	984,881	1,642,723	1,378,650
Employee Retention Credit		-	-	807,568
Federal, State and Local Grants and Contracts	650,774	-	650,774	692,910
Special Events (Net of \$506,592 of Costs of Direct Benefit to Donors)	554,968	-	554,968	525,158
Forgiveness of Paycheck Protection Program Loan		-	-	392,385
Aquarium Admission	319,779	-	319,779	281,074
Gifts-in-Kind	35,062	-	35,062	95,074
Other Income	181,893	12,000	193,893	82,277
Net Assets Released from Donor Restrictions	642,603	(642,603)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	4,339,909	361,608	4,701,517	5,702,711
<b>EXPENSES:</b>				
Program Services	4,035,746	-	4,035,746	3,534,476
Management and General	316,568	-	316,568	767,519
Fundraising	770,471	-	770,471	699,428
<b>TOTAL EXPENSES</b>	5,122,785	-	5,122,785	5,001,423
<b>CHANGE IN NET ASSETS</b>	(782,876)	361,608	(421,268)	701,288
Net Assets - Beginning of Year	4,049,429	750,150	4,799,579	4,098,291
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,266,553</u>	<u>\$ 1,111,758</u>	<u>\$ 4,378,311</u>	<u>\$ 4,799,579</u>

The Accompanying Notes are an Integral Part of These Financial Statements

## HEAL THE BAY

### STATEMENT OF FUNCTIONAL EXPENSES Year Ended September 30, 2023 With Summarized Totals for the Year Ended September 30, 2022

	2023							2022 Total Expenses	
	Program Services			Total Program Services	Support Services		Total Support Services		Total Expenses
	Research/ Advocacy	Membership/ Education	Advocacy and Lobbying		Management and General	Fundraising			
Salaries and Wages	\$ 142,732	\$ 1,747,109	\$ 184,857	\$ 2,074,698	\$ 43,583	\$ 381,837	\$ 425,420	\$ 2,500,118	\$ 2,231,637
Employee Benefits	18,416	225,423	23,851	267,690	5,623	49,267	54,890	322,580	292,770
Payroll Taxes	10,670	130,605	13,819	155,094	3,258	28,544	31,802	186,896	172,213
<b>TOTAL PERSONNEL EXPENSES</b>	171,818	2,103,137	222,527	2,497,482	52,464	459,648	512,112	3,009,594	2,696,620
Professional and Consulting Fees	20,553	354,665	23,553	398,771	180,682	145,437	326,119	724,890	1,019,231
Occupancy	24,530	386,290	32,247	443,067	7,490	65,642	73,132	516,199	495,813
Information Technology	6,646	100,109	9,391	116,146	2,029	25,245	27,274	143,420	159,899
Supplies	14,564	110,142	1,366	126,072	264	2,735	2,999	129,071	134,453
Gifts-in-Kind	239	22,116	310	22,665	73	12,324	12,397	35,062	95,074
Depreciation	4,442	54,370	5,753	64,565	1,356	11,883	13,239	77,804	69,659
Bank and Credit Card Processing Fees				-	44,702		44,702	44,702	64,142
Insurance	3,203	47,552	4,149	54,904	978	8,570	9,548	64,452	62,104
Utilities	4,655	100,296	6,272	111,223	1,058	10,249	11,307	122,530	59,106
Other Operating Expenses	2,459	23,765	2,315	28,539	2,405	2,155	4,560	33,099	51,405
Communications	11,304	15,919	1,187	28,410	168	4,802	4,970	33,380	37,095
Meetings, Conferences and Travel	6,430	111,965	9,094	127,489	219	3,128	3,347	130,836	21,869
Direct Mail Expense	-	-	-	-	-	16,193	16,193	16,193	21,194
Staff Development	920	14,302	1,191	16,413	281	2,460	2,741	19,154	13,759
Bad Debt Expense	-	-	-	-	22,399	-	22,399	22,399	-
<b>TOTAL 2023 FUNCTIONAL EXPENSES</b>	<b>\$ 271,763</b>	<b>\$ 3,444,628</b>	<b>\$ 319,355</b>	<b>\$ 4,035,746</b>	<b>\$ 316,568</b>	<b>\$ 770,471</b>	<b>\$ 1,087,039</b>	<b>\$ 5,122,785</b>	
<b>TOTAL 2022 FUNCTIONAL EXPENSES</b>	<b>\$ 349,700</b>	<b>\$ 2,944,045</b>	<b>\$ 240,731</b>	<b>\$ 3,534,476</b>	<b>\$ 767,519</b>	<b>\$ 699,428</b>	<b>\$ 1,466,947</b>		<b>\$ 5,001,423</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## HEAL THE BAY

### STATEMENT OF CASH FLOWS Year Ended September 30, 2023

With Summarized Totals for the Year Ended September 30, 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (421,268)	\$ 701,288
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Forgiveness of Paycheck Protection Program Loan	-	(392,385)
Depreciation	77,804	69,659
(Increase) Decrease in:		
Contract Receivables	(73,669)	34,393
Contributions and Pledges Receivable	(220,612)	123,580
Employee Retention Credit Receivable	797,606	(797,606)
Prepaid Expenses and Deposits	(30,564)	(70,054)
Right-of-Use Asset	350,044	-
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	128,770	(47,575)
Lease Liability	(355,660)	-
	<b>252,451</b>	<b>(378,700)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITY:</b>		
Purchase of Property and Equipment	(83,484)	(96,101)
	<b>168,967</b>	<b>(474,801)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>3,741,432</b>	<b>4,216,233</b>
Cash and Cash Equivalents - Beginning of Year	<b>3,741,432</b>	<b>4,216,233</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 3,910,399</b>	<b>\$ 3,741,432</b>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Non-Cash Impact of Implementation of Accounting Standards Codification Topic 842, Leases :		
Increase in Right-of-Use Asset	\$ 1,329,972	\$ -
Deferred Rent Adjustment	75,944	-
Increase in Lease Liability	1,405,916	-

The Accompanying Notes are an Integral Part of These Financial Statements



# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 1 - ORGANIZATION

Heal the Bay is an environmental nonprofit established in 1985 that is dedicated to making the coastal waters and watersheds of Greater L.A. safe, healthy, and clean. The organization uses science, education, community action and advocacy to achieve its mission. With the support of 30,000 active members and annual volunteers, Heal the Bay is one of the most impactful nonprofits in the region. Through a combination of education, collaboration, community action, and strong leadership, Heal the Bay inspires environmental stewardship and protects the health of millions of beachgoers each year.

Heal the Bay's programs include:

- **Adopt-A-Beach** - As the Los Angeles County coordinator, Heal the Bay provides supplies and training for community groups, civic organizations, and schools to adopt a stretch of beach or waterway and complete three cleanups per year. More than 500 civic groups have participated in the program.
- **Beach Report Card** - Heal the Bay provides weekly water quality updates for more than 650 beaches along the Pacific Coast, from Washington to Tijuana. Available on Heal the Bay's website and mobile app, simple to understand A-F grades are updated every Friday based on routine microbiological monitoring conducted by local health agencies and dischargers. Heal the Bay also produces an Annual Beach Report Card, providing a summary of water quality, ibeach closures and sewage spill information.
- **Coastal Cleanup Day** - Working with the California Coastal Commission, Heal the Bay has coordinated the Los Angeles County Coastal Cleanup Day (CCD) efforts since 1990. CCD attracts thousands of volunteers annually to clean beaches and inland waterways on the third Saturday of September. CCD volunteers have removed more than 2 million pounds of trash from Los Angeles County dive sites, beaches, and inland waterways.
- **Heal the Bay Speakers Bureau** - Volunteers throughout the Greater Los Angeles are trained by Heal the Bay to give presentations that raise awareness about the causes and consequences of ocean pollution. The Speakers Bureau conducts presentations to a variety of community groups, businesses, and schools, reaching tens of thousands of people each year.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 1 - ORGANIZATION (continued)

- **Key to the Sea** - Heal the Bay's award-winning marine environmental education program teaches Los Angeles County elementary school students (grades K-5) about water pollution prevention and marine conservation through curriculum and teacher training. The program culminates in fun, hands-on activities during a field trip to Heal the Bay Aquarium and the beach. Heal the Bay created Key to the Sea in 1999 and delivers the conservation messages to approximately 10,000 students and each year. More than 2,500 teachers have attended our workshops, which helps them include state-approved marine science curricula into their yearly lesson plans.
- **Heal the Bay Aquarium** - Located under the iconic Santa Monica Pier, Heal the Bay Aquarium provides a unique, hands-on way to interact with local marine life in a safe and educational environment. The Aquarium features live exhibits, including a shark tank and tide-pool touch tanks. Programming and events promote the conservation and protection of California coastal habitats. Heal the Bay Aquarium attracts more than 10,000 school children and 60,000 public visitors each year.
- **Stream Team** - Developed in 1999, science teams identify and remedy water quality problems and habitat degradation in the Malibu Creek and Los Angeles River watersheds. Heal the Bay staff and volunteers observe and report on illegal spills and habitat destruction. Expert staff conduct water chemistry tests and lead stream and creek restoration projects.
- **Inell Woods Park** (formerly WAYS Park) - Heal the Bay secured Proposition 84 funding to enhance an under-utilized property at McKinley and 87<sup>th</sup> avenues in South Los Angeles, a community that is underserved and disproportionately lacking in park space. The pilot project will provide a multi-use park with an outdoor classroom, community green space, fitness area, and water quality improvement elements. In addition to the above-ground community green space, the park will include a below-ground stormwater water quality project to reduce runoff pollution. Heal the Bay has a pending agreement to transfer ownership of these improvements, along with all associated rights and operating/maintenance obligations, to the City of Los Angeles Recreation and Parks Department. The project will serve as a model for other neighborhoods looking to improve water quality, capture and reuse stormwater and build more open space in their community.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### (b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### (c) CASH AND CASH EQUIVALENTS

Heal the Bay has defined cash and cash equivalents as cash in banks and money market accounts with an original maturity of three months or less. Heal the Bay places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Heal the Bay has not incurred losses related to these investments and believes it is not exposed to any significant credit risk on cash and cash equivalents. The carrying value of cash and cash equivalents at September 30, 2023 approximates its fair value.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **(d) CONTRACT RECEIVABLES**

Heal the Bay recognizes government contracts revenue as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. Heal the Bay's government contracts revenue is primarily derived from nonreciprocal fee-for-service and cost reimbursement grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures up to an amount not to exceed the total contract authorized. Amounts received are recognized as revenue when Heal the Bay has incurred expenditures in compliance with specific grant or contract provisions. Heal the Bay has elected to adopt a policy whereby donor-restricted grants and contributions that were initially conditional and whose conditions and restrictions are met in the same reporting period are recognized as revenue without donor restrictions. Amounts received prior to incurring qualifying expenditures or fulfilling the specific performance obligations are reported as refundable advances in the statement of financial position. At September 30, 2023, the majority of contracts receivable are due from governmental agencies and no allowance for doubtful accounts receivable was considered necessary.

During the year ended September 30, 2022, Heal the Bay determined that it qualified for the Employee Retention Credit (ERC), a refundable payroll tax credit program enacted by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020. Under the provisions of the ERC program, an eligible entity may take a credit against the employer's portion of Social Security taxes withheld on qualified wages subject to certain limitations. Heal the Bay has accounted for the ERC as a conditional government grant and considers that it substantially met the various conditions prescribed in the ERC program for the period of April 2020 through September 2021. Heal the Bay received payments totaling \$823,078 for the ERC during the year ended September 30, 2023. This included \$25,472 in interest paid by the Internal Revenue Service.

#### **(e) CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Heal the Bay recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest are received. Pledges receivable are discounted to their present value when payments are expected in future periods exceeding one year.

Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Intentions to give are not included as support until payments are made or enforceable promises to give are executed. At September 30, 2023, Heal the Bay evaluated the collectability of contributions and pledges receivable and no allowance for uncollectible contributions and pledges receivable was considered necessary. All contributions and pledges receivable are expected to be collected within one year.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) LEGACIES AND BEQUESTS

Heal the Bay records and reports bequests when declared valid by the probate court and/or the value of the amounts to be received are determinable.

#### (g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$2,000 and the useful life is greater than one year. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Office Equipment	3 - 5 Years
Leasehold Improvements	5 - 7 Years or Lease Term
Furniture and Fixtures	3 - 10 Years
Vehicles	5 Years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized.

#### (h) LONG-LIVED ASSETS

Heal the Bay reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended September 30, 2023.

#### (i) LEASES

Heal the Bay recognizes and measures its leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Heal the Bay is a lessee in an operating lease for its offices. See Note 6. Heal the Bay determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Heal the Bay recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the company uses the risk-free rate. The implicit rates of Heal the Bay's lease is not readily determinable and accordingly, Heal the Bay uses the risk-free rate based on the information available at the commencement date of the lease.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **(i) LEASES** (continued)

The ROU asset is subsequently measured throughout the lease term at the amount of the re-measured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

Heal the Bay has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that Heal the Bay is reasonably certain to exercise. Heal the Bay recognizes lease cost associated with short-term leases on a straight-line basis over the lease term.

#### **(j) GIFTS-IN-KIND**

Gifts-in-kind are recorded as contributions at their estimated fair value in the period received and expensed when utilized or sold. Gifts-in-kind are valued based upon estimates of fair market value that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Gifts-in-kind are not sold but rather used for Heal the Bay's programs and operations.

Gifts-in-kind that consist of donated services are recognized at fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

#### **(k) REVENUE RECOGNITION**

Contributed revenue includes annual membership dues, donations, and revenues from fundraising events. Annual memberships, which are included in direct public support in the statement of activities, are nonrefundable and nonreciprocal in nature, directly support the organization's mission and the benefits to members are available immediately upon joining, consequently such income is recognized when received. All donations are nonreciprocal in nature with the primary beneficiary being the general public.

Revenue from contracts with customers includes admission income to the aquarium and retail sales. These revenue streams are recognized as revenue when performance obligations are satisfied which is at a point in time. There were no funds received in advance for revenue from contracts with customers at September 30, 2023.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **(l) INCOME TAXES**

Heal the Bay is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

In accordance with FASB ASC Topic No. 740, *Uncertainty in Income Taxes*, Heal the Bay recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended September 30, 2023, Heal the Bay performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

#### **(m) FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing Heal the Bay's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Heal the Bay uses proportional salary dollars to allocate indirect costs.

#### **(n) USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **(o) COMPARATIVE TOTALS**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Heal the Bay's financial statements for the year ended September 30, 2022, from which the summarized information was derived.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **(p) NEW ACCOUNTING PRONOUNCEMENTS**

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, intended to improve financial reporting about leasing transactions. The new standard requires organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position, the assets and liabilities for the rights and obligations created by those leases. The ASU also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, provide additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2021. Heal the Bay adopted the ASU with a date of initial application of October 1, 2022 using the optional transition method which allows organizations to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption. Heal the Bay elected to apply the following package of practical expedients on a consistent basis permitting entities not to reassess: (i) whether any expired or existing contracts are or contain a lease; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance. In addition, Heal the Bay applied the practical expedient to include both the lease and non-lease components as a single component and account for it as a lease.

The impact of adopting the amended guidance primarily relates to the recognition of lease assets and lease liabilities on the statement of financial position for all leases previously classified as operating leases. Heal the Bay recognized a right-of-use asset of \$1,329,972 and a related lease liability of \$1,405,916 at October 1, 2022 for a contract that is classified as an operating lease. Heal the Bay also adjusted \$75,944 of deferred rent liability against the right-of-use asset at October 1, 2022. Leases with an initial term of 12 months or less have not been recorded on the statement of financial position. Refer to Notes 2 (i) and 6 for disclosures related to Heal the Bay's accounting for leases.

#### **(q) SUBSEQUENT EVENTS**

Heal the Bay has evaluated events and transactions occurring subsequent to the statement of financial position date of September 30, 2023 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 21, 2024, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.



# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 3 - CONSTRUCTION UNDER CONTRACT WITH THE CITY OF LOS ANGELES

The construction under contract with the City of Los Angeles relates to leasehold improvements, in the form of a multi-benefit park in South Los Angeles, that Heal the Bay has committed to developing using funds granted by the State of California, through Proposition 84, City of Los Angeles Community Block Grant and private donors.

Heal the Bay has entered into a 30-year ground lease agreement with the City of Los Angeles, in furtherance of, and subject to, the grant agreement with the State of California Department of Parks and Recreation Office of Grants and Local Services (Proposition 84 funding). No lease payments are required; however, Heal the Bay is obligated under the terms of the lease agreement to maintain the project upon completion for the duration of the lease. The liability for ongoing maintenance is not estimable at this time. Upon completion of the lease, any improvements will be surrendered to the City of Los Angeles.

In accordance with a donation agreement dated March 16, 2016, at the completion of constructing the project the City of Los Angeles Recreation and Parks Department will take ownership of the leasehold improvements and assume any rights conferred by the current lease agreement as well as all obligations for future maintenance and operation of the park. Following execution of the donation agreement, Heal the Bay will no longer have any interest in or obligation to the leasehold improvements and/or their continued operation and maintenance.

Estimated costs to complete the contract are approximately \$2,200,000 and will be funded by the Proposition 84 Statewide Park Program, City of Los Angeles Community Block Grant Program, Los Angeles County Supervisor Holly Mitchell, as well as private funders. Construction is due to begin in January 2024.

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2023 consists of the following:

Office Equipment	\$	381,982
Leasehold Improvements		629,429
Furniture and Fixtures		685,709
Vehicles		<u>148,778</u>
<b>TOTAL</b>		1,845,898
Less: Accumulated Depreciation		<u>(1,569,079)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	\$	<u><u>276,819</u></u>

Depreciation expense for the year ended September 30, 2023 amounted to \$77,804.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 5 - COMMITMENTS AND CONTINGENCIES

#### (a) GRANTS AND CONTRACTS

Certain of Heal the Bay's grants and contracts are subject to inspection and audit by the appropriate government funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Heal the Bay has no provision for the possible disallowance of program costs in its financial statements.

#### (b) LEGAL PROCEEDINGS

In the normal course of business, Heal the Bay may become a party to legal proceedings. Management believes there are no asserted or unasserted claims or contingencies that would have a material impact on the financial statements of Heal the Bay as of September 30, 2023.

### NOTE 6 - LEASES

Heal the Bay leases its offices under a non-cancelable operating lease which expires in April 2026, which is accounted for as an operating lease. Leases with an initial term of 12 months or less, which are not expected to be renewed beyond one year, are not recorded on the statement of financial position and are recognized as lease expense on a straight-line basis over the lease term. At September 30, 2023, Heal the Bay recognized \$979,928 of right-of-use asset and \$1,050,255 of related lease liability for this contracts that is classified as an operating lease.

Lease cost was as follows for the year ended:

	<b>September 30, 2023</b>
Operating Lease Cost	\$ 401,540

Weighted-average remaining lease term and weighted-average discount rate were as follows during the year ended:

	<b>September 30, 2023</b>
Weighted-Average Lease Term - Operating Lease	2.58 years
Weighted-Average Discount Rate - Operating Lease	4.25%

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 6 - LEASES (continued)

Maturities of the lease liability as of September 30, 2023 are as follows:

<b>Years Ending September 30</b>	<b>Operating Lease</b>
2024	\$ 103,548
2025	422,472
2026	435,148
2027	146,472
<b>Total Lease Payments</b>	<b>1,107,640</b>
Less: Imputed Interest	(57,385)
<b>TOTAL LEASE LIABILITY</b>	<b>\$ 1,050,255</b>

### NOTE 7 - PENSION PLAN

Heal the Bay has a tax deferred retirement plan under Internal Revenue Code (IRC) Section 408(p). The plan covers all eligible employees of Heal the Bay. Participants are eligible if they are reasonably expected to receive at least \$5,000 in compensation for the calendar year, or if they have received at least \$5,000 in compensation during any one prior calendar year. Participants may elect to defer up to the maximum annual deferral determined by the IRC. For each plan year, Heal the Bay matches participants' elective deferrals up to the lesser of 3% of participants' compensation or \$6,000. Pension expense for the year ended September 30, 2023 was \$28,707.

### NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30, 2023:

Subject to Expenditure for Specified Purpose:	
Inell Woods Park	\$ 107,784
Santa Monica Pier Aquarium	156,436
Advocacy	428,023
Science and Policy	37,613
Stream Team	103,860
Beach Cleanup	58,051
Fisheries	67,264
Other Programs	6,315
Not Subject to Appropriation or Expenditure:	
Donor-Restricted Endowments Corpus	146,412
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 1,111,758</b>

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended September 30, 2023:

Satisfaction of Purpose Restrictions:		
Santa Monica Pier Aquarium	\$	218,650
Advocacy		197,767
Science and Policy		25,227
Beach Cleanup		50,029
Fisheries		50,736
Inell Woods Park		20,000
Stream Team		21,320
Other Programs		23,640
Satisfaction of Time Restrictions		<u>35,234</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b>\$</b>	<b><u>642,603</u></b>

### NOTE 9 - ENDOWMENTS

Endowment funds are established by donor-restricted gifts to either provide a permanent endowment, which is to provide a permanent source of income to Heal the Bay, or a term endowment, which is to provide income for a specified period to Heal the Bay. Heal the Bay's permanent endowment at September 30, 2023 consists of the Joe Crocker Memorial Fund.

Heal the Bay's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on endowments required to be held in perpetuity, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Heal the Bay's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management.

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 9 - ENDOWMENTS (continued)

<b>Endowment Net Asset Composition by Type of Fund at September 30, 2023</b>	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted	\$ -	\$ 146,412	\$ 146,412
<b>TOTAL FUNDS</b>	<b>\$ -</b>	<b>\$ 146,412</b>	<b>\$ 146,412</b>
<b>Changes in Endowment Net Assets for the Year Ended September 30, 2023.</b>			
Endowment Net Assets - Beginning of Year	\$ -	\$ 146,412	\$ 146,412
Investment Return (Net)	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-
<b>ENDOWMENT NET ASSETS - END OF YEAR</b>	<b>\$ -</b>	<b>\$ 146,412</b>	<b>\$ 146,412</b>

### NOTE 10 - GIFTS-IN-KIND

For the year ended September 30, 2023, gifts-in-kind were comprised of the following:

Category	Valuation	Description	Amount
Fundraising	Wholesale Price	Event Production	\$ 25,978
Fundraising	USDA National Average	Food and Beverage	4,895
Program	Wholesale Price	Supplies	4,189
<b>TOTAL GIFTS-IN-KIND</b>			<b>\$ 35,062</b>

# HEAL THE BAY

## NOTES TO FINANCIAL STATEMENTS September 30, 2023

### NOTE 11 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by Heal the Bay at September 30, 2023 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at September 30, 2023:	
Cash and Cash Equivalents	\$ 3,910,399
Contract Receivables	183,147
Contributions and Pledges Receivable	<u>309,532</u>
<b>TOTAL FINANCIAL ASSETS</b>	<b>4,403,078</b>
Less Amounts Not Available to Be Used within One Year, Due to:	
Donor-Imposed Restrictions:	
Funds Held for Perpetual Endowments	(146,412)
Funds Held with Purpose Restrictions	<u>(965,346)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 3,291,320</u></b>

Heal the Bay regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of Heal the Bay's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.